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**TESTIMONY OF
NATIONAL FEDERATION OF INDEPENDENT BUSINESS (NFIB)
SUPPORTING
HB-5010, AA RESTORING THE RATE OF THE CREDIT AGAINST THE AFFECTED BUSINESS
ENTITY TAX
FINANCE, REVENUE & BONDING COMMITTEE
MARCH 3, 2022**

NFIB is the leading small business association in the nation with thousands of members in Connecticut representing a cross-section of the state's economy. For more than 75 years, NFIB has been advocating on behalf of America's small and independent business owners, both in Washington, D.C., and in all 50 state capitals. NFIB is nonprofit, nonpartisan, and member-driven. Since our founding in 1943, NFIB has been exclusively dedicated to small and independent businesses and remains so today. On behalf of those small- and independent- job-providers here in Connecticut, NFIB offers the following comments:

NFIB strongly supports HB-5010, An Act Restoring The Rate Of The Credit Against The Affected Business Entity Tax. Thank you to the Committee for hearing and considering this important pro-small business bill. This legislation would simply provide for a restoration of the credit against the state's Pass-through Entity Tax (PET) back to the "full" 93.01%, as was originally established upon passage of Public Act 18-49, rather than the current 87.5% credit.

When the PET was originally proposed, it was intended to be a – rather novel, at the time, and subsequently, deemed permissible by the Department of Treasury and the IRS – tax policy to assist small business owners who are set up as pass-through entities with the problems resulting from the newly imposed \$10,000 deduction limit for state and local taxes (the "SALT" cap) under federal tax reform passed by Congress (the 2017 TCJA). When originally proposed and passed in 2018, the PET's intended impact on the state budget was essentially revenue neutral – because the new 6.99% PET was offset by the 93.01% tax credit. This PET and attendant offsetting credit simply allowed the state to assess and collect the personal income tax liability of pass-through business owners through their legal business entity, rather than individually, in response to the "SALT" cap. After changes were made to reduce the offsetting credit to the current 87.5% in 2019, however, the net effect of the PET was no longer revenue neutral and instead represented a revenue gain to the state of approximately \$50 million annually – essentially a tax "increase" on small business owners organized as pass-through entities.

It is no secret that the impact of the pandemic over the past two years has been felt greatly by small businesses across the state. At the same time, the state's budget situation has improved significantly and revenues are far exceeding expectations – with the state's fiscal year currently projected to close with a \$2.5 billion surplus. Passage of this legislation can directly assist many of our state's small business owners recovering from the pandemic, sending a positive message that Connecticut is able to provide for measured, targeted, and reasonable tax relief during these unprecedented times.

Thank you for the opportunity to comment in support of HB-5010. NFIB looks forward to an opportunity to be part of continuing conversations on this important issue and work with leadership of the Finance Committee, DRS, the Administration and other stakeholders. For any questions or additional information, please contact Andy Markowski, NFIB's State Director in Connecticut, at 860-248-NFIB.